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Order 2000-12-27

Served: January 3, 2001



**UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.**

Issued by the Department of Transportation
on the 29th day of December, 2000

Essential Air Service at

MARION/HERRIN, ILLINOIS

under 49 U.S.C. 41731 *et seq.*

Docket OST-2000-7881- 3

**ORDER SELECTING CARRIER
AND SETTING FINAL RATE**

Summary

By this order, the Department is selecting Corporate Airlines, Inc., to provide essential air service at Marion/Herrin, Illinois, for a two-year period, at an annual subsidy of \$794,031.

Background

On or about May 8, 2000, Corporate Airlines took over several routes into St. Louis, including Merion/Herrin, as a Trans World Express code-share affiliate. On August 31, 2000, Corporate Airlines, Inc. filed a 90-day notice of its intent to terminate all scheduled air service at Marion/Herrin, Illinois, effective November 29, 2000.



By Order 2000-11-16, issued November 15, 2000, the Department prohibited Corporate Airlines from suspending service at Marion/Herrin for 30 days beyond the end of the 90-day notice period, through December 29, 2000, and requested proposals from air carriers interested in providing replacement service at the community.

Corporate Airlines is the only air carrier providing scheduled service at Marion/Herrin and currently serves the community with four nonstop round trips each weekday to St. Louis and six nonstop round trips each weekend (a total of 26 weekly round trips) with 19-seat Jetstream 32 aircraft.

Carrier Proposal

Corporate Airlines, the only airline that filed a proposal in response to our request, submitted two service options. Under its first option, the airline proposes to continue its current service of 26 nonstop round trips a week to St. Louis with 19-seat Jetstream 32 aircraft at an annual subsidy of \$794,031. Its second option is to provide 18 nonstop round trips a week to St. Louis at an annual cost of \$619,532.

A detailed summary of Corporate Airline's subsidy proposal is contained in Appendix A.

Community Comments

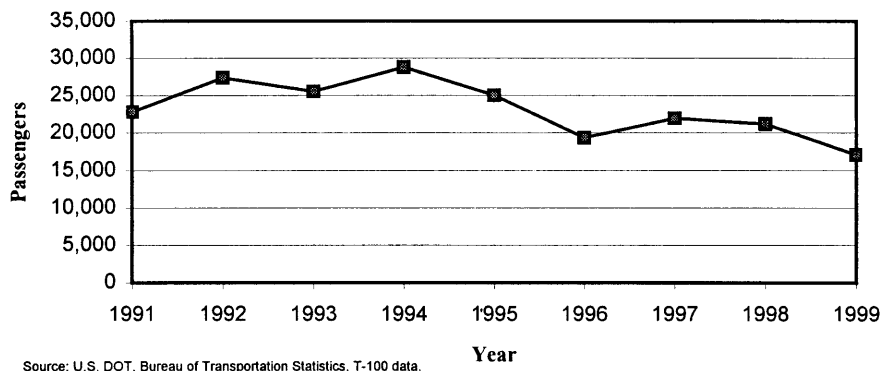
By telephone, the airport manager of the Williamson County Regional Airport serving the Marion/Herrin area advised the Department that the communities in the region were very pleased with the current service being provided by Corporate Airlines and fully supported the 26 weekly nonstop round trip service proposal submitted by the airline.

Selection Decision

It is the normal practice of the Department to authorize subsidy for three round trip flights per day for all but the smallest traffic-generating communities. On the other hand, the Department recognizes that occasionally particular situations may warrant subsidized service at levels higher than generally provided.

Marion/Herrin is not the typical essential air service community. Although the number of passengers generated at subsidized EAS communities varies greatly by community, most fall into the 5,000-10,000 passengers-a-year range. As the chart below shows, Marion/Herrin has averaged about 20,000 passengers a year over the last three years, and was in the 25,000-30,000 passengers-a-year range during the mid-1990's. An average of 25,000 passengers a year equates to an average of 80 passengers a day (based on 313 days to account for typically reduced service on weekends) or 40 a day in each direction. Based on Corporate's four-round-trip-a-day option, there would be an average of 10 passengers per flight, sufficient or nearly sufficient to be operated subsidy free. While traffic has declined in the last few years, the early returns are that Corporate has been able to reverse that downward trend, but not as quickly as the carrier had projected. Corporate Airlines is a commuter air carrier and is already providing reliable scheduled air service at several communities including Kirksville, Cape Girardeau and Fort Leonard Wood, Missouri. Community officials in Marion and Herrin also report that Corporates's service is highly reliable. Based on all of the above, while we remain concerned about the significant increase in subsidy required for the four-round-trip-a-day option compared to three a day (\$794,031 vs. \$619,532), we will authorize subsidy for the higher service level for this two-year contract period. We expect that Corporate and the community will work together in the next two years to raise traffic levels to the point where subsidy will not be required after this two-year contract. Failing that, however, we are putting the community on notice that we will closely examine the traffic results of the next two years in the context of the need to continue to subsidize four round trips a day.

Historical Passenger Traffic at Marion/Herrin, Illinois



Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. Corporate Airlines was found by the Department to be fit, willing and able to engage in scheduled passenger operations as a commuter air carrier by Order 95-8-2, issued August 2, 1995. Most recently, in Order 2000-10-3, the Department found that Corporate Airlines continues to be fit to operate as a commuter air carrier and is capable of providing reliable essential air service at Kirksville, Missouri. Since that time, no information has come to our attention that would lead us to question the carrier's ability to operate in a reliable manner. While preparing this Order, the Department discussed the operational fitness of Corporate Airlines with the FAA's Flight Standards District Office in Nashville. The FAA advised us that the carrier continues to conduct its operations in accordance with all regulations, and knows of no reason why we should not find that Corporate Airlines remains fit and can continue to be relied on to provide reliable essential air service. Based on the above, we find that Corporate Airlines is fit to provide the essential air transportation at issue in this case.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY

1. The Department selects Corporate Airlines, Inc., to provide essential air service at Marion/Herrin, Illinois, as described in Appendix B, for the two-year period beginning on November 30, 2000;
2. The Department sets the final rate of compensation for Corporate Airlines Service, Inc., for the provision of essential air service at Marion/Herrin, Illinois, as described in Appendix A, for the two-year period beginning on November 30, 2000, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling set forth in Appendix A,

and shall be determined by multiplying the subsidy-eligible flights each way completed during the month by \$601.78;¹

3. We direct Corporate Airlines, Inc., to retain all books, records, and other source and summary documentation to support claims for payment, and to preserve and maintain such documentation in a manner that readily permits its audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order;

4. We find that Corporate Airlines, Inc., continues to be fit, willing and able to operate as a certificated air carrier and capable of providing reliable essential air service at Marion/Herrin, Illinois;

5. This docket will remain open until further order of the Department; and

6. We will serve a copy of this order on the mayors of Marion and Herrin, the airport manager of the Williamson County Regional Airport, the Illinois Department of Transportation, and Corporate Airlines, Inc.

By:

FRANCISCO J. SANCHEZ
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov/>*

¹ See Appendix A for the calculation of this rate, which assumes the use of the aircraft designated. If the carrier reports a significant number of aircraft substitutions, revision of this rate may be required.

Appendix A

**SUBSIDY CALCULATION FOR
CORPORATE AIRLINES, INC.,
AT MARION/HERRIN, ILLINOIS**

Aircraft type	Jetstream 32
Block hours <u>1/</u>	1,987
Passengers	20,034
Avg. Fare	\$75
Passenger Revenue	\$1,502,550
Freight Revenue @ 0.5%	<u>7,513</u>
Total Revenue	\$1,510,063
Flight Crew @ \$90.29/hr.	\$179,406
Fuel & Oil @ \$168.30/hr.	375,940
Insurance @ \$25.96/hr.	51,583
Maintenance @ \$214.37/hr.	425,953
Lease @ \$73.08/hr.	<u>145,210</u>
Total Direct Costs <u>2/</u>	\$1,178,092
MWA Station Costs	\$195,600
STL Station Costs	163,221
MWA Ldg. Fees @ \$3.90/turn <u>3/</u>	5,140
STL Ldg. Fees @ \$33.40/turn <u>3/</u>	44,021
Commissions @ 6.84% of rev.	102,774
Res./tickets @ \$6.40/pax	128,218
Liability Ins. @ \$2.53/pax	50,686
Advertising	15,000
G & A @ \$.0610/ASM <u>4/</u>	<u>311,623</u>
Total Indirect Costs	\$1,016,283
Total Operating Expense	\$2,194,375
Return @ 5%	\$109,719
Total Economic Cost	\$2,304,094
Annual subsidy need at 97.5% completion	<u>\$794,031</u>

1/ 52 flights/week x 52 weeks x .975 completion factor x 45 minutes/60 = 1,987 hours.

2/ Unit costs based on system experience for 6 months ended 8/31/00, except fuel, which is based on the most recent month's costs at the STL subsystem, 110 gph & \$1.72 per gallon.

3/ 26 landings/week x 52 weeks x .975 (completion factor) = 1,318 turns or landings

4/ Unit costs based on system experience for the quarter ended 8/31/00 increased for projected MWA ASM's to take into account the trend in reduced unit cost over the year as Corporate Airlines has grown. 52 flights/week x 52 weeks x .975 x 102 miles x 19 seats = 5,108,568 ASM's.

Appendix B

CORPORATE AIRLINES, INC. ESSENTIAL AIR SERVICE TO BE PROVIDED AT MARION/HERRIN, ILLINOIS

<u>Effective Period:</u>	Two-year period beginning on November 30, 2000
<u>Service:</u>	Twenty-six nonstop round trips each week to St. Louis
<u>Aircraft:</u>	Jetstream 32 (19-seat)
<u>Timing of Flights:</u>	Flights must be well timed and well spaced to ensure full compensation.
<u>Subsidy Rate:</u>	Per year - \$794,031 Per flight - \$301.23 ¹
<u>Weekly Compensation Ceiling:</u>	\$15,663.96 ²

Note: The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ Annual compensation of \$794,031, divided by the estimated number of annual completed flights (2,636), calculated as follows: number of flights per week (52) x 52 weeks = 2,704 x's .975 (completion factor) = 2,636

² The subsidy rate per flight (\$301.23) multiplied by the number of scheduled subsidy-eligible flights per week (52).